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SUBJECT: POLAND: Scenesetter for CODEL Duncan Visit, January 19-21, 2006

Summary

¶11. (U) Poland with an area of 313,000 square kilometers is about the size of New Mexico. Poland's population of 38.6 million (2004 est.) is 96 percent ethnically Polish and almost entirely Roman Catholic. However, there are also small German, Belarussian, Roma, Ukrainian, Jewish and Russian minorities. Poland ranks eighth in Europe in population, and sixth within the expanded European Union. According to the most recent IMF data, the Poland's GDP totaled \$242 billion GDP in 2003, while per capita GDP was \$6300. Poland thus accounts for about 8 percent of the EU25 population, but only 2 percent of EU25 GDP. Polish public opinion, given close and long-standing ties to the U.S. rooted in past Polish immigration (there may be 10 million Americans of Polish ancestry), generally supports U.S. policies and American ideas about democracy and free markets. Poland shares U.S. views on the importance of human rights and remains an active supporter of the international human rights agenda. Despite support among elites for Polish engagement in Iraq, however, the Polish public remains deeply skeptical, with large majorities favoring withdrawal. Poland's media, while still evolving, play a largely positive role in promoting lively political debate, rooting out problems such as corruption, and furthering the marketplace of ideas.

Political Overview

¶12. (U) Poland is one of our closest allies, and there is much official and public support for a close relationship with the United States as well as for strong trans-Atlantic relations. The close political and strategic relations Poland and the United States enjoy are often regarded in terms of a "special relationship," of the sort that the United States has with Great Britain and other key allies. The Poles are intent on sustaining and even deepening this relationship, which they view as strengthening Poland's position within an expanded European Union.

¶13. (U) On September 25, center-right Law and Justice (PiS) founded and led by identical twin brothers Jaroslaw and Lech Kaczynski, won parliamentary elections in Poland with 26.99 percent of the popular vote. PiS was followed closely by the centrist Civic Platform (PO), which won 24.14 percent of the votes. For two years before the elections, these parties planned to form a coalition. Coalition talks unexpectedly failed in October after PiS candidate Lech Kaczynski edged out PO's Donald Tusk in the Presidential run-off. (Note: President Kaczynski assumes office on December 23). PiS Prime Minister Kazimierz Marcinkiewicz instead formed a minority government of 18 ministers: 10 PiS loyalists and 8 apolitical policy experts. Thus far, PiS has effectively courted support from third place finisher Self Defense (SO), headed by the controversial populist Andrzej Lepper, and from the ultra conservative League of Polish Families (LPR), headed by Roman Giertych. Given that the support of these two extremist parties is tenuous, PiS leaders have indicated they will seek early elections if they are not able to achieve their legislative agenda. Should new elections be held in the near future, current polls show PiS would improve its standing in parliament, as would PO.

¶14. (U) The new GOP supports strong partnership with the United States, and has publicly vowed to keep troops in Iraq until July 2006. We expect a decision in the next ten days. The Kaczynskis and their party are Euro-skeptical and during last fall's campaign promised to be more forceful when dealing with Russia and Germany. However, they realize that Polish integration into the EU and NATO is crucial to Poland's economic and political growth, and will continue along the broad outlines of the Poland's existing foreign policy.

Economic Overview

15. (U) Poland's economy continues to grow at a decent rate after several years of sluggish growth at the beginning of the decade. Although final data are not available for 2005, most observers think GDP grew 3.5 percent in 2005. For the second year in a row, one of the most important drivers behind this growth is strong exports (up over 16 percent in 2005), particularly to EU markets. Based on this record of growth, foreign companies, and at a slower pace, also domestic companies have resumed investing. Industrial production is up almost 8 percent in the last quarter of 2005.

16. (U) The rapid expansion of domestic demand in the latter half of the 1990s, combined with the Russian financial crisis of 1998, led to a worrisome deterioration in Poland's external finances. The current account deficit peaked at 7.5 percent of GDP in 1999. Since then, significantly slower import growth and a strong export performance have cut the deficit, which fell from 4.2 percent in 2004 to 1.3 percent in 2005, despite significant real appreciation of the zloty. The U.S. is a relatively small trading partner for Poland, accounting for roughly two percent of its total trade volume. In 2004, U.S. exports to Poland totaled \$929.2 million, while U.S. imports from Poland totaled \$1,821.5 million. In the first ten months of 2005 U.S. exports reached \$1.03 billion while imports from Poland stood at \$1.6 billion.

17. (U) Poland has attracted more than \$85 billion of foreign direct investment (FDI) since 1990, according to the Polish Agency for Foreign Investment (PAIZ). U.S. companies have invested a combined total of over \$14 billion in Poland since 1990. The PAIZ estimates that FDI inflows for 2005 exceeded \$8 billion, close to the record level of \$10 billion reached in 2000. Large-scale FDI and portfolio inflows have allowed net official reserves to increase, from \$21.2 billion at the end of 1997 to over \$40 billion at the end of 2005.

EU Perspectives

18. (U) Poland's accession to the European Union in May 2004 and integration with the internal European market will accelerate modernization and strengthen the competitive position of Polish business. The entry into the EU of such a close ally -- and one so clearly determined as Poland to deepen bilateral relations with us further -- should serve to strengthen the relationship of the U.S. and the European Union and encourage greater European engagement in facing global challenges. For the present, the Poles remain concerned about continuing strains in the transatlantic relationship over Iraq and other issues, and hope that their new EU partners and the U.S. can resume their traditional cooperation as quickly as possible. And while Poland is not likely to be the U.S. "Trojan horse" that some in Brussels have feared, accession raises to the forefront several issues of particular importance to Poland that may give rise to conflict with the Commission: agriculture, labor mobility, and state aids for declining rustbelt industries.

19. (U) Agriculture: Approximately 16 percent of all working Poles are employed in farming, the highest percentage in the EU25. Nevertheless, the farm sector accounts for only 3 percent of GDP. Ironically, while Polish farmers were some of the most vocal opponents of accession, they have also been among the biggest early winners. Due mainly to purchases of meat by buyers from the Netherlands and Germany, some Polish farmers have seen farm-gate prices for their livestock rise almost 60 percent since accession. Not all Polish farmers have enjoyed this windfall, however, and the main concern among them (and the Polish government) is that EU agricultural subsidies be phased in as quickly as possible and not be reduced.

110. (U) Labor Mobility: Poland's unemployment (17 percent plus) is the highest in EU. The demographic bulge is now reaching working age, and youth unemployment exceeds 35 percent. The UK, Ireland, Sweden, and the Netherlands have opened their markets to Polish workers effective May 1, 2004, and more than 100,000 Poles have found jobs in these countries over the past 20 months. Poland is rapidly creating one of the best-educated labor forces in Europe. In 2004, more than 1.80 million students were enrolled in Poland's universities and schools of higher education, not far behind the 2.3 million studying in Germany - a country more than twice as large. Foreign investors consider the large available pool of college graduates to be one of the chief attractions of the Polish economy. In recent years, dozens of U.S. and European firms have located outsourcing and business processing operations to Poland to take advantage of its highly educated labor force. Despite such improvements, it will take some years before economic growth is able to bring down the rate of employment to moderate levels. To relieve labor market pressures, Polish policy-makers continue to advocate removal of the remaining labor

market restrictions within the EU (especially in Germany, France, and Austria) as rapidly as possible.

¶11. (U) State Aids: Infrastructure investment remains an important issue for Poland, which rightly sees its miserable road system as a brake on economic development. Poland looks to the EU to provide funding which will accelerate the removal of this bottleneck. The restructuring of declining rust-belt industries (coal mining, steel, ship-building, and railways) remains politically sensitive due to the difficult labor market situation. Poland will be looking for EU tolerance of continued subsidies to these sectors, including exceptions from certain state aids restrictions.